Kansas Credit Union Association

April 3, 2009

Ms. Mary Rupp, Board Secretary
National Credit Union Administration
1775 Duke Street
Alexandria, VA 223140-3428

Dear Ms. Rupp:

The Kansas Credit Union Association (KCUA) appreciates the opportunity to respond to the National Credit Union Administration's (NCUA) Advance Notice of Proposed Rulemaking (ANPR) for corporate credit unions. The KCUA was chartered in 1934 and represents 99 of the 107 state and federally chartered natural person credit unions and one state-chartered corporate credit union. Kansas natural person credit unions range in asset size from $158,151 to $599,045,442, with average assets of $30.6 million, serving over 562,800 members. Kansas Corporate Credit Union (KCCU) had $304,267,946 in assets as of December 31, 2008, and provides services to 100 percent of Kansas credit unions.

Since January 28, 2009, KCUA management has provided numerous opportunities for our member credit unions to share their input concerning the actions taken by NCUA leading up to and following the conservatorships of WesCorp and U.S. Central Federal Credit Union and this ANPR. Understandably the events of the past few months have been particularly disturbing for our credit unions as Kansas served as the birthplace of the first corporate credit union in the nation in 1951 and the subsequent chartering of U.S. Central in 1974.

Transparency of the NCUA actions leading up to and since the conservatorships should be provided prior to proceeding with the next phase of the Corporate Stabilization Plan. Discussions concerning the prospective restructuring of the corporate credit union network took a secondary position to the concern about the financial impact thrust upon each natural person credit union from the utilization of the NCUSIF funds for the capital note, guarantee and conservatorship expenses. Confusion has given way to distrust due to incomplete or mixed messaging and a perceived lack of full disclosure. Emotions aside, credit unions in Kansas and KCUA are resolute in their view that the Kansas credit union movement values and needs the support and services of the corporate credit union network, especially those provided by Kansas Corporate Credit Union.

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Credit unions are concerned their future operations may also be negatively impacted if there is a rush to action to resolve an issue—number of institutions, structure and governance of the corporate network—when these components are yet to be definitively defined as a safety and soundness issue.

1. The Role of Kansas Corporate Credit Union in the Kansas Credit Union System

Corporate credit unions were organized for the same underlying reason natural person credit unions were first formed—to fill a void in the existing marketplace. Credit unions were at the mercy of their banking competitors to provide timely and appropriate product development at a fair price while fighting them at every turn for market share. Kansas credit unions have enjoyed the benefit of cooperatively creating solutions to meet changing consumer needs. The fast-paced introduction of new products and services during late 1970's and early 1980's could have easily been the demise of the credit union movement if not for the corporate credit union system. Bankers' banks copied the general concept as smaller banks found they needed correspondent services from an independent source.

The introduction of share drafts necessitated the most valuable product of the corporate credit union network—settlement of payment services. The physical processing of payments can be, and in many cases are, accomplished by a number of sources. For instance, the services corporation of KCUA provides item processing in concert with KCCU settlement services. A third piece of the payment systems service, provided by KCCU, that is essential to maximizing efficiencies and cost effectiveness for our member credit unions is the short-term investment services for overnight accounts. Credit unions could settle separately through the Federal Reserve if they had the personnel and expertise to monitor the fluctuations and perform balancing of the multiple files received throughout the day. The cost in staff time and potential fees/penalties to the majority of credit unions could drastically impact their ROA and long-term viability.

Some have suggested that in place of corporate credit unions, natural person credit unions providing correspondent services. However, since these functions are not the primary role for natural person credit unions, there could be a potential risk of not having enough liquidity within the credit union to handle the flow of settlement on any given day. Also, many credit unions feel that the very credit unions that would have the resources to provide correspondent services present as much competitive risk to their operations as a bank would.

Although credit unions could certainly obtain some services through various CUSO arrangements, we believe any attempt to run settlement services through a CUSO would ultimately only lead to the recreation of a corporate network. Instead of 26 or less corporate credit unions to examine and regulate, third party/CUSO/vendor approval and scrutiny could easily become unmanageable for regulators, increase due diligence cost to credit unions and potentially increase risk.

Another critical core function provided by KCCU is liquidity management. If credit unions are following the fundamental principles upon which they were formed, they will see their role not as an investment club for individual members, but recognize the value of providing a balance between provident and prudent deposit and lending services. In order to do so, credit unions look to their corporates to provide for their liquidity and borrowing needs as their balance sheets ebb and flow.

One Kansas credit union manager recalled the days when he could not obtain adequate liquidity from his correspondent bank. Just nine years ago, credit unions across the nation were concerned about having equal footing with banks in securing enough liquidity for Y2K. Do we really want to place our credit unions at the mercy of banks to provide this essential function? Our credit unions have voiced a resounding NO.

To further enhance or assist in liquidity management, we suggest that corporate credit unions could benefit from the direct use of CLF funding. Additionally, if the processes and negative regulatory views of natural person credit unions utilizing CLF funding were changed, this would provide another avenue for liquidity needs.

Our credit unions have looked to the corporate credit union network as a valued and trusted partner in obtaining and safekeeping of their long-term investment needs. As the trade association, we routinely deal with outside sales representatives of investment instruments that have little or no understanding of the regulatory requirements placed upon natural person credit unions for investments. Credit unions need an appropriate mix of short and long term investments to maintain proper asset liability management levels.

We feel that NCUA's role and focus in this arena should be limited to regulatory oversight. Could NCUA consider moderating their regulatory view since the entire financial services sector is experiencing an unprecedented economic environment?

2. Corporate Structure

Consumers today are not homogenized, quite the opposite. Some want a local financial institution presence and others are content to do all their transactions virtually. So it is with credit unions and their corporate needs. We feel the marketplace should dictate the organizational structure of those who are most capable of serving credit union needs. Artificially forcing an arbitrary structure could ultimately result in the exact opposite response than what is trying to be achieved, that of efficiency and effectiveness. The number of institutions, their field of membership and service area is best determined by the marketplace. If a corporate credit union is not competitive and responsive to the needs of their members, they will naturally cease to exist. The question that is not addressed in this debate, and must be recognized, is the right of member credit unions to determine what is competitive and responsive to them.

The first level of defense against risk should not fall upon the NCUSIF and, therefore, there is a good argument for NCUA to review capital requirements--core, membership capital and risk-based capital. In light of the concerns about concentrations, regulators should first examine capital before jumping to the conclusion that structure will resolve any future weakness or would have prevented recent events. Continued participation in and support of corporates after January 28, 2009, appears to be in direct relationship to the level of ownership stake and involvement. Again, artificially imposing a structure distancing the user from the provider could further erode what has served to be the most beneficial ingredient in stabilizing the liquidity within the network.

Until 2005, KCUA provided a natural person credit union representative to the U.S. Central board of directors. We feel this was a very appropriate appointment and should have been continued. Do we feel that the events of the past few months could have been altered if the make up of the board had been different? We are not sure, but given that the pool from which outside directors would have been selected missed the mark as well, we do not see that changes in governance should be mandatory because of these events. Each organization should have the right to determine the expertise needed to appropriately perform their functions and can obtain what is needed through a variety of sources, not just through their directors.

In summary, we believe the marketplace will and should be allowed to drive the structure of the corporate credit union system. Furthermore, KCUA believes KCCU has played an integral part in the development and growth of Kansas credit unions and is necessary for their short and long term success.

Thank you for the opportunity to weigh in on this important issue. If you have any questions, please contact me at 316.206.2222 or by email at marlam@kcua.org.

Sincerely,

Marla S. Marsh

Marla S. Marsh, President/CEO